DOLLARIZING QUALITATIVE DISCRIMINATORS USED IN BEST VALUE SOURCE SELECTIONS

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Overview

- Best Value Introduction
- Dollarization Methodology
- Dollarization Model
- Conclusions

Introduction

- Previous Source Selections
  - Lowest bidder was often the decision criteria
  - Mainly considered proposal price, not other costs relevant to the decision
- Future Source Selections
  - Need to consider all relevant costs that are associated with this decision
  - Both qualitative and quantitative aspects evaluated
  - Other benefits
  - “Best Value”

Best Value

- Best Value is the process used in competitive negotiated acquisition to select the most advantageous offer by evaluating and comparing factors in addition to cost or price (AFAR)

- The objective of a source selection is to select the proposal that represents the best overall value to the United States government (FAR)

Research Problem

- How do we evaluate both the quantitative and qualitative aspects of an offeror's proposal in a fair and reasonable manner?

Solution

- To "dollarize" or quantify all relevant costs, strengths, weaknesses, and risks
  - Research proposes a model that addresses this problem
  - This model has been successfully used in actual source selections
  - Need to concentrate on key differences between proposals

Implementing the model

- Dollarization must be an essential element in the Acquisition Strategy Plan
- Key data and evaluation methods must be outlined in the Request For Proposal
- All participants must be aware of the selection model and its impact on the selection decision

* The following model comes from the recent public/private depot outsourcing competitions

Evaluation Model

Proposal Price	$	500		
Adjustments	$	100		
Customer Cost			$	600
Direct Costs				
State Unemployment Payments	$	(200)		
Retiree Health Benefits	$	100		
Comparability Costs			$	(100)
Indirect Cost				
Overhead Savings	$	(250)		
Federal Income Tax Adjustment	$	150		
Total Indirect Costs			$	(100)
Strengths, Weaknesses, and Risks				
Material Cost Risk	$	100		
Warranties and Guarantees	$	(50)		
Total SWR			$	50
Total Evaluated Cost			$	450

Traditional Source Selections

Degree of Abstraction

Proposal Price

- Price that exists after discussions
- Completeness checks
  - Does it include everything required for in the RFP
  - Adjustment so that everyone is on a “level playing field”
- Comes from the offeror’s proposal
- Traditional stopping point in past source selections

Direct Costs

- Costs directly related to the “instant” contract
- Actual budget outlays as a result of the contract, but not included in the proposal
- Mainly interested in the key discriminators between proposals
- Multitude of cost modeling techniques
- Many of these are for government offerors or private offerors using government facilities/material

State Unemployment Payments

- The amount being added for payments for state unemployment compensation that is not included in the depot's proposed rates
- Adjustment is necessary since the private offeror must include all unemployment taxes

Base Support Costs

- These are the costs of miscellaneous base services provided by other base organizations such as fire prevention and police services
- Not included in public offeror's rates

Mobilization Support

- This is the cost of developing and testing mobilization support plans and determining a value for underutilized capacity (training costs and exercises – labor costs)
- Cost of military members

Retiree Health Benefits

Current civilian employees upon retirement from the government are offered health benefits which are partially funded by the government. This cost comparability adjustment assures government proposal costs contain full retirement costs.

Indirect Costs

- Costs indirectly attributable to selection of offeror
  - Takes a broader view of impact, not necessarily limited to the instant contract
  - May consider DoD wide effects

Overhead Savings

- This is an adjustment for overhead cost/savings to be realized for other workloads performed by the offeror during performance of the workload to be awarded

- Capt Bill Ward will address this category in more detail

RIF/PCS/VERA/VSIP Expenditures

- These are all adjustments that have to be made in order to account for the additional expenditures that will be required if gov't workers have to be "let go" for lack of work related to this effort
- VERA – Voluntary Early Retirement Authority
- VSIP – Voluntary Separation Incentive Program
- RIF – Reduction in Force
- PCS – Permanent Change of Station

Transition Adjustment

This represents the additional cost that will be incurred by the Government to perform the work during the transition period prior to the offeror's assumption of the work

Federal Income Tax Adjustment

This adjustment represents the anticipated federal taxes to be paid on profits earned by private offerors

Strengths, Weaknesses, and Risks

- Section L & M of the RFP direct the evaluation of key cost, technical, and past performance criteria
- All proposals have strengths, weaknesses, and risks, but how do you dollarize these aspects in a fair and orderly manner

Strengths, Weaknesses, and Risks

Technical	PRAG	Cost
- Transition	- Past Performance	- Completeness
- Production (Steady/State	- Experience on similar contract	- Realism
- Quality		- Reasonableness
- Personnel		

Color Rating B,G,Y,R
Risk H,M,L

Relevance
Risk H,M,L

Offeror A Cost Performance Risk

- Cost Performance Risk Represents the Risk That the Offeror Will Perform At Proposed Price
- This Risk Range Considers Proposal Data, PRAG Past Performance Data and Other Risk Analysis
- Three Areas Evaluated:
  - Material Risk (Quantity & Price)
  - Labor Risk (Quantity, Rate & Performance)
  - Other Areas

Offeror A
Material Cost Performance Risk

Initial	FPR	Low	High
N/A	N/A	$ 43,342,175	$ 389,780,822

- Quantities-- 50 ELIN Analysis Mitigated Risks
  - Offeror Made Appropriate Changes To All Questioned Areas
  - Offeror Did Not Adjust Other ELINs Not Part of 50 ELIN Analysis
  - 5-Year Past Performance Cost Shows 5%Average Loss But With Great Variability
- Prices-- FY99 Standard Prices Realistic
  - Price Analysis of Historical Expense Material Show No Significant History of Price Increase Risk
  - Offeror Built in AFMC Goal to Reduce SMAG Costs by 5% Over Six Years

Offeror A
Material Cost Performance Risk

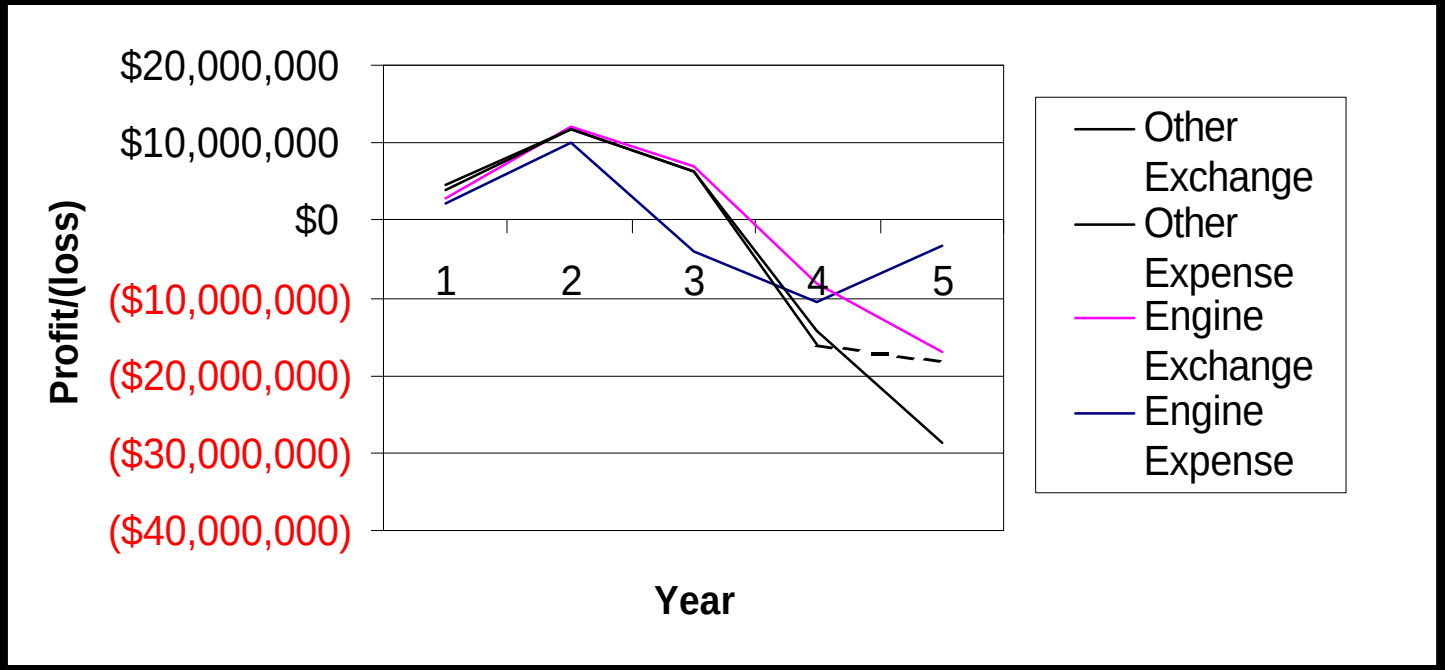
Initial	FPR	Low	High
N/A	N/A	$ 43,342,175	$ 389,780,822

- Basis for Evaluated Cost Risk Adjustment
  - Low:
    - 50 ELIN Results Extrapolated to 15% of Price Which Was Not Reviewed ($43.3M)
  - High:
    - 50 ELIN Results Extrapolated to 57% of Material Costs Not Discretely Reviewed ($243.3M)
    - AFMC SMAG Cost Reduction Goals Added Back as Risk ($65.6M)

MATERIAL RISK PAST PERFORMANCE

- PRAG Data Indicated Swings in Material Performance From a Variety of Causes
- Material Performance Over FY94-98 Indicates an Average Loss of 5.07%
- If Applied to the 57% of Material Cost ($3.07B) Not Reviewed During the 50 ELIN Analysis, the 5.07% Suggests at $155.7M Risk
- If Applied to the Total Material Costs, Implies a $273.9M Risk

MATERIAL RISK PAST PERFORMANCE

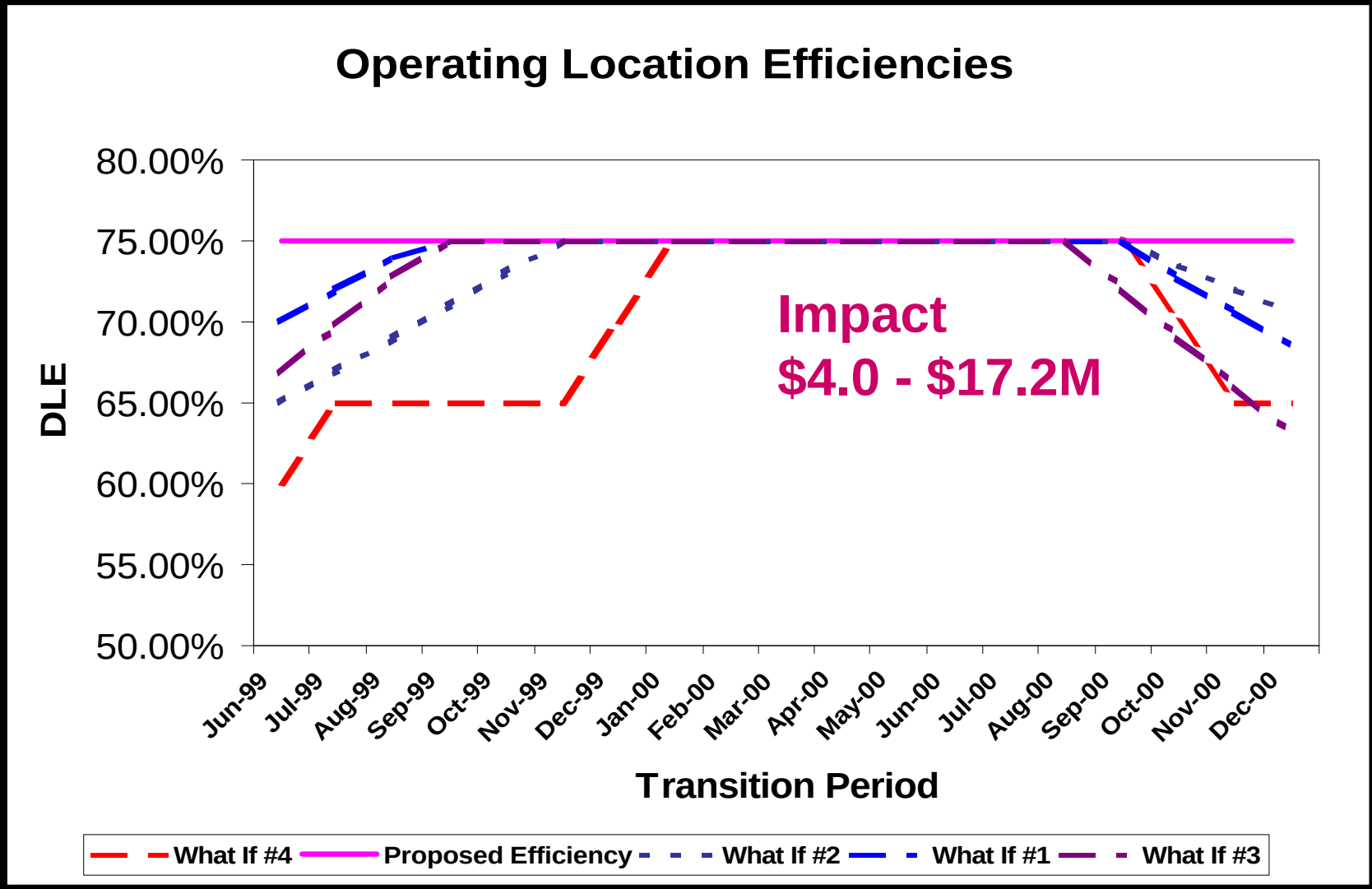


FY94--Total Material $83M
FY95--Total Material $85M
FY96--Total Material $71M
FY97--Total Material $74M
FY98--Total Material $82M
PBA Averages $360M/yr

MATERIAL RISK
AFMC COST REDUCTION GOAL

- AFMC/CC Has Set a Goal of Achieving 5% Savings in SMAG Costs Over 6 Years
- OC Adjusted FY99 SNUD Pricing to Reflect This Goal--$65.6M Price Reduction
- Risk of Not Achieving Goal

OFFEROR A LABOR EFFICIENCY



OFFEROR A FLOW DAY IMPROVEMENT ADJUSTMENT

Initial	FPR	Low	High
N/A	N/A	$ (10,067,417)	$ (10,067,417)

- Purpose: Represents Savings Obtainable Due to Improved Flow Days Based Upon Elimination of Planned Pipeline Spares Acquisition
- Background:
  - Flow Days/Mean Time Between Demand = Pipeline Spares Requirement
  - Shorter Flow Days Mean Fewer Spares Are Required to Satisfy Customer Needs
  - Forecast Purchases Can Be Avoided
- Calculation:
  - (Value of Current Planned Buy Requirements) - (Value of Pipeline Spares Buys Required Based on Offeror's Flow Days) = Savings

OFFEROR A F100 PROCESS QUALIFICATION

Initial	FPR	Low	High
N/A	N/A	$ 26,335,737	$ 71,850,386

- Offeror A Proposes to Perform All F100 Processes In-House and to Become Qualified During Transition
- Proposal Assumes a Quick Qualification Schedule Offering Steady State Organic Pricing
- SA-ALC/LPFE and ASC/LP Independent Review Team Project Longer Schedule
- Risk Adjustment Considers ASC/LP Longer Qualification Schedule Using Contract Prices During Interim Period and Extended OEM Support

OFFEROR B WARRANTIES/GUARANTEES

Initial	FPR	Low	High
$ (2,002,386,658)	$ (1,846,632,234)	$ (605,500,000)	$ (505,700,000)

- Represents Anticipated Government Savings Due to Expected Reductions in Future Repair Quantities Based Upon Warranted and Guaranteed Reliability Improvements
- Analysis Only Considers Proposed Warranties/Guarantees Exceeding Minimum RFP Requirements
- Historical Failure Data Used to Estimate Value of "Free" or "Avoided" Repairs Using Offeror Proposed Prices
- Independent Technical Evaluation Developed Estimate, Cost Team Applied Probability Modeling:
  - Potential Variation in Flying Hours & Baseline Reliability
  - Low: 60th Percentile; High: 40th Percentile

Final Model

	Offeror A	Offeror B
Price	$$$$	$$$$
Direct Costs	$$$$	$$$$
Indirect Costs	$$$$	$$$$
Dollarization	$$$$	$$$$
Total Evaluated Cost	$$$$	$$$$

Conclusions

Good

- Gives a total evaluated cost of the system
- Turns subjectivity into objectivity
- Saves DoD $

Bad

- Open for protests by the contractor
- Lack of Understanding
- Lack of Consistency